

August 20, 2012

Natural Gas Trends**Highlights****ALTERNATIVE COST RECOVERY METHODS**

Implementation of an infrastructure cost tracker typically provides for greater scrutiny and regulatory oversight to ensure that LDC replacement and enhancement efforts are prudent and cost-effective.

The American Gas Foundation (AGF) recently released a paper describing dozens of alternative cost recovery approaches adopted in 22 states to recover costs associated with replacement, by natural gas local distribution companies, of aging gas utility

infrastructure. The paper focuses primarily on large scale investments in non-revenue producing infrastructure, that is, replacements and enhancements that do not add customers and do not lead to increased revenues that would otherwise offset costs.

The AGF's paper compares traditional rate case cost recovery methods to infrastructure cost trackers, infrastructure base rate surcharges, deferred regulatory assets and earnings stability mechanisms.

For Texas, the AGF estimates that 6.9% of distribution main miles (Appendix A) and 7.6% of distribution services (Appendix B) are in need of replacement.

The paper, which was prepared by Yardley Associates for the AGF, is titled "Gas Distribution Infrastructure: Pipeline Replacement and Upgrades." It is available for download at:

<http://www.gasfoundation.org/ResearchStudies/AGF-Infrastructure-2012.htm>

Data

- September Natural Gas Futures Contract (as of Aug 17), NYMEX at Henry Hub closed at \$2.719 per million British thermal units (MMBtu)
- September Light, Sweet Crude Oil Futures Contract (as of Aug 17), NYMEX at Cushing closed at \$96.01 per U.S. oil barrel (Bbl.) or approximately \$15.29 per MMBtu

Last week: Texas, U.S. CDD higher than normal

For the week beginning 8/12/12 and ending 8/18/12, cooling degree days (CDD) were higher than normal for Texas and the U.S. For the cooling season (1/1/12 to 12/31/12), cumulative cooling degree days were 21% above normal for Texas and 26% above normal for the U.S.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 8/18/2012	*Week CDD + / - from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	109	+29	1613	59%
Austin	154	+14	2251	12%
DFW	152	+13	2428	33%
El Paso	139	+28	2154	28%
Houston	159	+32	2494	27%
SAT	171	+32	3523	22%
Texas**	143	+17	2225	21%
U.S.**	71	+3	1106	26%

* A minus (-) value is cooler than normal; a plus (+) value is warmer than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which CDD are calculated.
 ** State and U.S. degree days are population-weighted by NOAA.

Last week: U.S. natural gas storage at 3,261 Bcf

For the week ending 8/10/12, U.S. working gas in storage rose from 3,241 to 3,261 Bcf, compared to 2,819 Bcf in storage a year ago and compared to an average of 2,898 Bcf in storage during the 5-year period from 2007 to 2011. Working gas in storage in the producing region (which includes Texas) decreased from 1,108 to 1,104 Bcf.

Source: www.eia.doe.gov

U.S. WORKING GAS IN STORAGE				
Region	Week ending 8/10/12	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,664	1,635	29	+ 7.6%
West	493	498	-5	+ 16.8%
Producing	1,104	1,108	-4	+ 18.7%
Lower 48 Total	3,261	3,241	20	+ 12.5%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: U.S. gas rig count down 11

The gas rig count for the U.S. was down 11 when compared to the prior week and down 416 when compared to 12 months ago. The total rig count for the U.S. was down 17 for the week and down 60 when compared to 12 months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT

	As of 8/17/2012	+/- prior week	Year ago	+/- year ago
Texas	902	-9	893	+9
U.S. gas	484	-11	900	-416
U.S. oil	1425	-7	1066	359
U.S. total	1914	-17	1974	-60
Canada	326	+27	486	-160

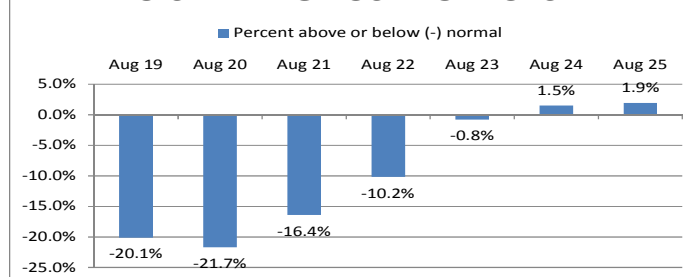
Numbers are excerpted and not meant to be totaled

This week: U.S. energy lower, then higher

U.S. energy use is forecasted to be lower than normal through Thursday, then higher than normal, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index

U.S. ENERGY USE FORECAST



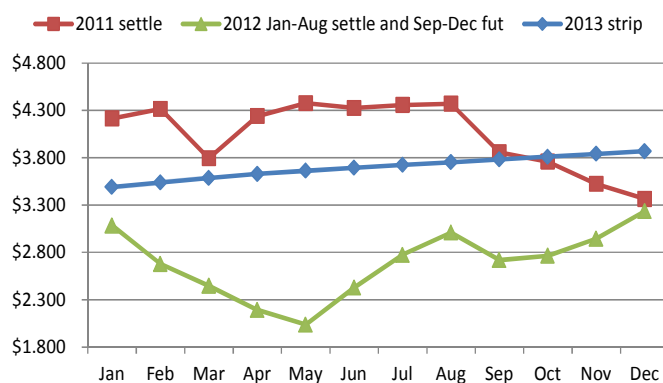
NATURAL GAS PRICE SUMMARY AS OF 8/10/2012

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US September futures				
NYMEX	\$2.719	-\$0.051	-\$1.138	\$3.250

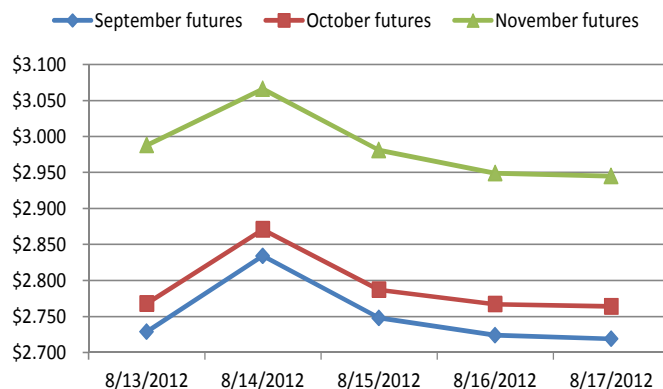
Natural Gas Trends will not be published on August 27 or September 3, 2012 in recognition of Texas holidays. Publication will resume on September 10, 2012.

Strip prices. Natural gas strip prices for 2013, shown below in blue, are the average of daily settlement prices for the next twelve months of natural gas futures contracts.

NYMEX NATURAL GAS PRICES: 2011 - 2013



LAST WEEK: NYMEX HENRY HUB FUTURES PRICES



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